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Venezuelan Internationalism
Oil and Influence

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Venezuelan Internationalism
Oil and Influence

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Central Intelligence Agency
Directorate of Intelligence

July 1977

Key Judgments

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Significant changes have taken place in Venezuela in the past two decades. A century of relative isolation has been replaced by a period of highly visible international activity, in an effort to increase Venezuelan influence in the region and in the world and to replace a heavy dependence on the United States with a growing regionalism and Third World interdependence.

A number of factors coincided to push Venezuela toward this posture, most importantly the dramatic rise in petroleum revenues following the OPEC price hikes in 1973-74. Other factors have included a series of activist presidents and the lessons in multinational cooperation that were learned from the OPEC experience.

After the OPEC price increases, Venezuela initiated an unprecedented number of financial agreements with neighbors and regional banks. In 1974-75, more than $2.5 billion (the equivalent of 10 percent of its 1974 GNP) was allotted to the foreign aid sector, although the entire sum was not disbursed in those two years. At the same time, President Carlos Andres Perez and other high-level members of the government became very active in asserting Venezuela's role in the region and championing the cause of underdeveloped countries worldwide.

Proved Venezuelan reserves are beginning to dwindle, however, and a conflict is growing between domestic development and an active foreign policy. Present estimates of the world energy situation lead to the conclusion that Venezuela's oil revenues will grow little, if at all, through 1980, but that they may rise significantly between 1980 and 1985. Although the populace enjoys the country's increased stature on the world stage, pressure to spend

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less money abroad and more at home is increasing. Domestic development programs are costing more and achieving less than anticipated, and the bill for imports is rising steeply. The national elections scheduled for December 1978 will surely sharpen this issue, and extensive new foreign assistance programs will probably become too controversial for any candidate to support.

Thus in the next few years Venezuela will probably wish to avoid large new economic assistance programs. It will be a period of some retrenchment, for without excess oil revenue to dispose of, there are few ways in which Venezuela could conduct an active and effective foreign policy; it has relatively weak cultural and historical ties to other countries in the region; it has not yet established a sound industrial base for new export-led growth; its military is essentially a domestic defense force; and its corps of diplomatic personnel, with a few exceptions, is undistinguished and disorganized.

Only the expectation of increased oil prices and revenues in the 1980s will support a policy of continued Venezuelan internationalism in the next few years, but it will probably focus more on high visibility and rhetorical activities than on further economic assistance.

[redacted]

FOREWORD

By its past standards, Venezuela has pursued an extraordinarily active foreign policy in the last few years. It has initiated an unprecedented series of economic agreements with Central American, Caribbean, and Andean countries. It has also participated vigorously in the global dialogue between the developing and the developed countries. This paper investigates the reasons why these activities were undertaken and what the future holds for Venezuelan internationalism.

[redacted]

The study forms part of a cumulative project to analyze the rise in influence and assertiveness, among the developing countries, of a number of potential "second-order" powers, whose ambitions and activities seem likely increasingly to complicate the efforts of the United States to cope with global and, especially, regional issues. The first step of this project was the publication of a working paper [redacted] It established a framework for identifying potential second-order powers, examining how they might interact regionally, and determining how their new assertiveness might affect their relationships, and those of the region, with the United States. The next step is the publication of three papers, of which this is the second, on the foreign policies of Mexico, Venezuela, and Cuba as potential second-order, or regional, powers. The final step will be a paper studying the interplay of Mexico, Venezuela, and Cuba in the Caribbean, assessing them as potential competitors for power in the region, and analyzing the consequences of their interaction for US interests in the area.

These studies are meant primarily to inform the Latin American specialist. But it is also hoped that they will contribute to a better understanding of the rise and interaction of potential second-order powers in other regional contexts.

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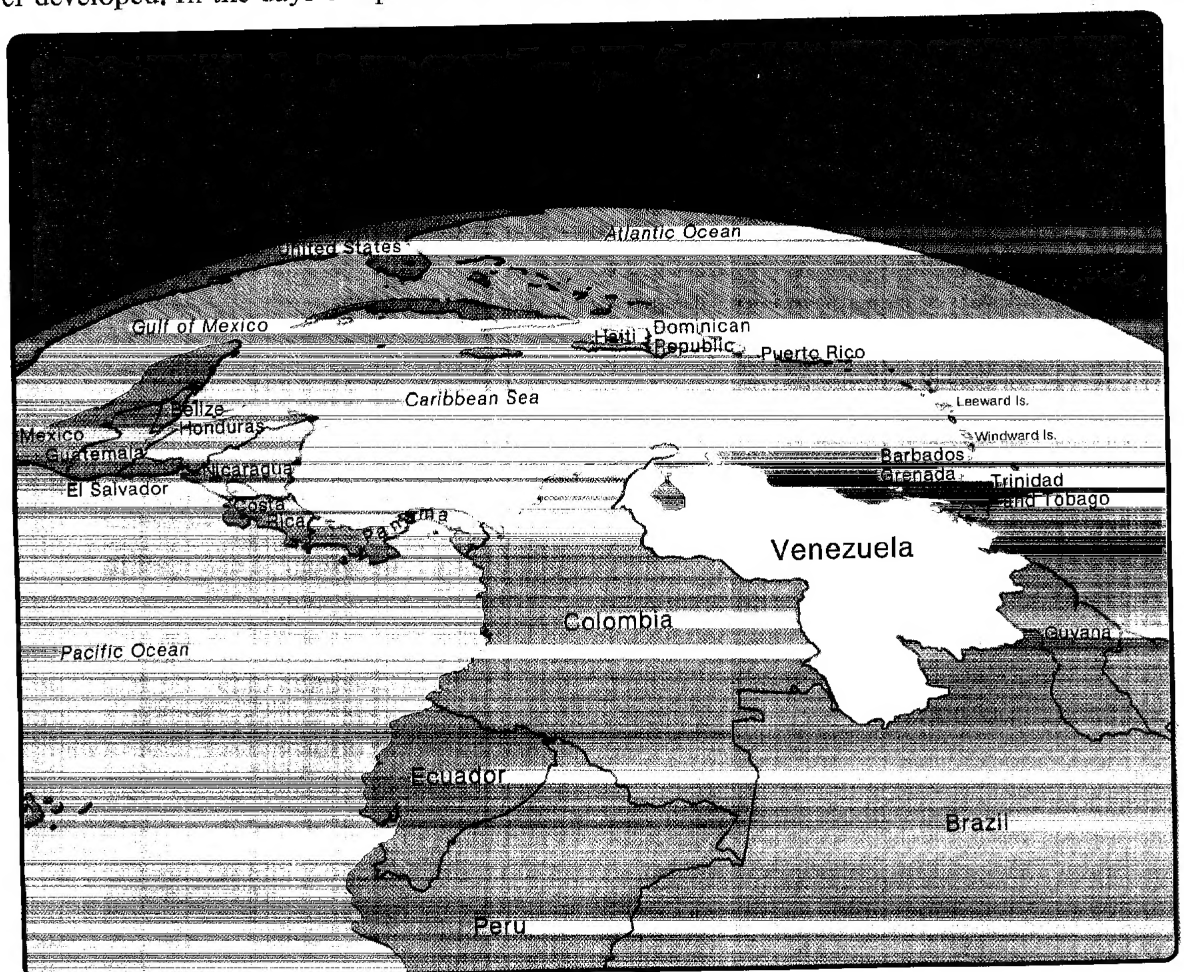
Venezuelan Internationalism
Oil and Influence

Isolation

Even though Venezuela is classified as an Andean country, it occupies an anomalous position midway between the Caribbean and the Andean regions in South America without really belonging to either. Geographically, the country contains both Caribbean and Andean features, but an identity as one or the other has never developed. In the days of Spanish colonial rule, adventurers and officials merely passed it by on their way to the west coast of the Americas. Compared to Colombia and Peru, it was a backwater of the conquest, and even before that it was a backwater of the great Indian empires. 25X1

After independence in 1821 and unsuccessful attempts to form a union with Colombia and Ecuador (to be called Gran Colombia), Vene-



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zuela endured a succession of tyrannical dictators until the death of Juan Vicente Gomez in 1935. Throughout this period Venezuela traded relatively little with the rest of the world, even with its neighbors in the Andes and the Caribbean. Because of its unusually violent and repressive regimes, it was regarded as something of a pariah. A former president wrote: "Venezuela did not enter the 20th century until the death of Gomez....Until then ours was a semi-feudal, semi-colonial state still living in the 19th century." Liberalizing elements then began to gain influence, although they suffered a severe setback in the dictatorship of Marcos Perez Jimenez from 1950 to 1958. Even as Venezuela began to emerge from fiefdom, however, trade ties grew significantly only with the United States, and the oil which allowed Venezuela to grow rich and to build political stability created resentment among its neighbors.

Venezuela's historical isolation from other countries in the region was exacerbated by various linguistic and cultural differences. Guyana, Trinidad, the Windward Islands, the Netherlands Antilles, and Brazil were all colonized by non-Hispanic cultures. Venezuela's only neighbor with a Hispanic heritage is Colombia, and the development of good relations between the two has been impeded by continuing border disputes. It was not until 1958, when Perez Jimenez was overthrown and Romulo Betancourt was elected president, that Venezuela began to emerge as a politically and economically maturing nation.

Betancourt—leader of the Democratic Action (AD) Party—served as president from 1959 to 1964, and his success in completing his elected term in office became a source of great pride for Venezuelans. He developed closer ties to the United States and began the reversal of Venezuela's traditional isolation by establishing the Betancourt Doctrine, which attempted to promote democracy in Latin America by ostracizing nondemocratic coup-installed governments and withholding formal recognition from them. The list of outcasts included at various times the Dominican Republic, Cuba, Panama, Nicaragua, Bolivia, Peru, Guatemala, Ecuador, Honduras, Haiti, Argentina, Brazil, and Paraguay. Cuba was especially vilified because of its support to antidemocratic, and specifically anti-Betancourt, guerrillas. The Doctrine continued through the term of Betancourt's AD Party successor, Raul Leoni Otero, and was not changed until Rafael Caldera Rodriguez, a member of the COPEI (Committee for Independent Political Electoral Organization) party, took office in 1969 and substituted for it the concept of "ideological pluralism."

One of the factors in this reversal was that Venezuelan business at this time saw the Caribbean as a potential market, and as a member of COPEI, Caldera was free to change policies associated with the previous AD leaders. With his Foreign Minister Aristides Calvani, he then began to promote closer ties with Venezuela's neighbors. Calvani, born in Trinidad of Venezuelan parents, visited every Caribbean capital except Havana and Port-au-Prince, and together with Caldera began to assert that Venezuela had a role to play in the region. The only country left beyond the pale was Cuba, because its revolutionary doctrines and its continued open support for subversive groups had led to general hemispheric rejection, expressed in its expulsion from the Organization of American States (OAS) in 1964. In 1972, as a result of Caldera's efforts, Venezuela became the first Spanish-speaking member of the Caribbean Development Bank, to which it made an initial contribution of $9.5 million. [redacted] 25X1

Caldera's successor, Carlos Andres Perez of the AD party, has not only continued this new foreign policy orientation, he has expanded it greatly and identified himself personally with Third World aspirations. He played a leading role in efforts to reintegrate Cuba into the American system. He has also attempted to resolve long-standing border disputes with Colombia and enjoys a close personal friendship with Colombian President Lopez Michelsen. So far, however, this latter ambition has been

frustrated by a failure to gain a national consensus on the issue and by pressure from the Venezuelan military, which opposes conciliation on the border issues.[1]

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Oil

Perez' personal interest in expanding Venezuela's regional leadership role was given a major boost by the OPEC actions of 1973-74. On the one hand, the exercise of economic power by OPEC in quadrupling world oil prices provided the high visibility, prestige, and financial means to support a more active role. On the other, a new opportunity for leadership by Venezuela appeared because vastly increased expenditures for petroleum by the oil-poor countries of the Caribbean region created an unusual need for financial aid in the form of loans or preferential credit plans for the purchase of oil.[2]

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It is appropriate that oil should have been the basis for this major foreign policy move, for oil has been almost a synonym for Venezuela in this century. Since 1914, when the first major deposit of oil was discovered in Lake Maracaibo, revenues from petroleum extraction have financed a growing economy. By 1920, Venezuela was the world's largest oil exporter, remaining so until the 1960s when Middle Eastern countries took the lead. Its domestic fortunes have been closely tied to oil revenues which rose slowly over the past half century. Many times it appeared as though declining world demand or confrontation with the oil companies would cause revenues to fall, but external events such as the Suez crisis or worldwide price rises always came to the rescue, sustaining a slow but steady pattern of growth.

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Million Current US $

	Total Government Income	Petroleum Revenues	Petroleum Revenues as Percent of Government Income
1910	16.3	0	0
1920	19.1	0.2	1
1930	49.0	11.0	22
1940	76.9	22.8	30
1950	446.9	210.0	47
1960	1,158.0	699.5	60
1970	2,214.0	1,340.6	60
1975	9,544.0	7,377.0	77

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These continuously rising revenues have freed the Venezuelan government from the need to resolve what would normally be conflicting fiscal demands. Indeed, the success of the nascent democratic tradition in Venezuela,[3] especially the peaceful turnovers of government from one party to another in 1969 and 1974, may be due as much to the luxury of relatively high government revenues as to the undeniable Venezuelan commitment to democratic processes. Such revenues have reduced the stresses on government normally found in developing countries of whatever political persuasion. 25X1

In addition to the overwhelming impact which oil has had on Venezuela's domestic economic and political life, the success of OPEC

[1] This is virtually the only external issue on which the military attempts to exert its influence. Since the 1960s, when the army carried out successful operations against Cuban-backed guerrillas both in urban areas and in the remote countryside, the military has considered itself mainly a defensive and counterinsurgency force. Recently, all the services have purchased new equipment, partly as a replacement and modernization program, but partly also in an arms competition with Colombia: 80 medium tanks and 40 light tanks were recently purchased from France, probably to create an armored brigade near the Colombian border; Canberra bombers and Mirage fighters, even with an in-commission rate of only about 40 percent, place the air force significantly ahead of Colombia's; the navy, concerned about the possibility of a clash with Colombia over the disputed territorial waters in the Gulf of Venezuela, has recently purchased four frigates from Italy—the first to be delivered in a couple of years followed by one per year thereafter. In general, the military has been satisfied and, aside from disagreements with Perez over the Colombian problem, it is firmly in support of the government.

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[2] The Dominican Republic, for example, saw its balance-of-payments current-account deficit shoot from $99 million in 1973 to $244 million in 1974 as imports rose from $428 million to $677 million, mostly because of oil.

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[3] The governments of Romulo Betancourt (AD) from 1959 to 1964, Raul Leoni Otero (AD) from 1964 to 1969, Rafael Caldera (COPEI) from 1969 to 1974, and Carlos Andres Perez (AD) from 1974 to the present.

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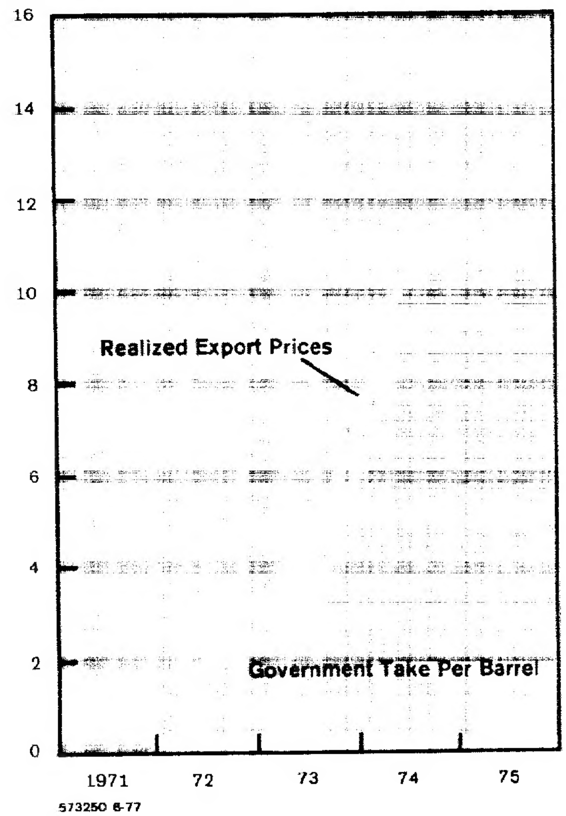
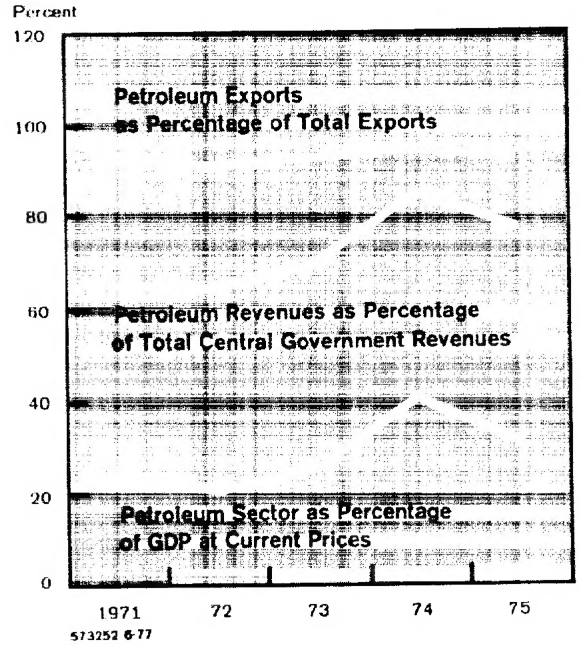
Petroleum Export Prices and Government Take Per Barrel



Petroleum Sector's Contribution to GDP at Current Prices, to Central Government Revenues and to Exports



has had far-reaching effects on its conduct of foreign policy. Juan Pablo Perez Alfonzo, then minister of mines and hydrocarbons, was largely responsible for the formation of OPEC in 1960. Perez Alfonzo was one of the first to become convinced of the need for collective action by oil producing states in order to bargain more effectively with the large oil corporations. Early disagreements and indecision among the member countries slowly disappeared as OPEC matured, and its unprecedentedly successful collective price hikes in 1973-74 left a strong mark on Venezuela's approach to international problems. President Perez' present championing of the New International Economic Order (NIEO) and of regional associations, such as the Latin American Economic System (*Sistema Economico Latinoamericano–SELA*) and the Andean Pact, clearly reflect the OPEC lesson, which is that organizing relatively weak states for collective action is an effective way to control natural resources and to gain foreign policy goals.

When OPEC raised prices in 1973-74 and the price of Venezuelan crude went from $3.33 per barrel to $9.13 per barrel, Perez, assuming office in March 1974, faced a number of possible uses for these revenues: ILLEGIB

- Increasing efforts to "sow the oil," that is, to invest oil revenues in building a strong economy and in promoting social, educational, welfare, and health programs so that healthy growth can be sustained regardless of the future role of oil in the economy.

- Accelerating the process of nationalizing the petroleum industry by providing the funds for compensation and negotiating pay-

25X1 ment to the owners rather than by waiting until the concessions ran out in the 1980s. [redacted]

- 25X1 Funding military spending programs. [redacted]
- 25X1 Increasing regional influence through economic largesse. [redacted]

All of the above goals benefited in some measure from the OPEC bounty. The ambitious V Plan of the Nation (the 1976-80 five-year plan) is directed toward sowing the oil and promoting domestic welfare programs. The petroleum industry was nationalized in January 1976, years earlier than the original plans, as acceptable compensation terms were agreed upon with the oil companies. The military's modernization program and policy of arms parity with Colombia have already been noted. Finally, a program of international loans and grants has been undertaken, focusing on the Caribbean, Central American, and Andean Pact 25X1 countries. [redacted]

Recent Political and Economic Activities

Since the 1973 price increases and the resultant deluge of income, Venezuela has undertaken numerous financial agreements with regional groups, individual countries, and international banks, which are unprecedented in number or scope for any Latin American country. These activities were the first effective recycling of petrodollars, aside from bank deposits and arms purchases by the Arab States. In 1974 and 1975 Venezuela allocated over $2.5 billion for use in the foreign sector, mostly in loans to international financial institutions. This prodigious figure—which has been only partially disbursed—was equivalent to approximately 10 percent of Venezuela's 1974 GNP. International activities continued in 1976 and the first half of 1977, but at severely curtailed levels of funding, and more emphasis was placed on Venezuela's self-proclaimed leadership of the Third World. President Perez took two well-publicized trips—to Europe and the Soviet

President Perez in Moscow [redacted] 25X1

Union in November 1976 and to the Middle East in April 1977—which emphasized Venezuelan involvement in world affairs and which were without parallel in Venezuela's history. ILLEGIB

The Perez government began to use oil income to finance foreign economic assistance programs within a month after he took office. In April 1974, Perez' finance minister, Hector Hurtado, announced to a meeting of the Inter-American Development Bank (IDB) in Santiago that Venezuela would lend $500 million, in five yearly installments, to the IDB for use in regional development projects. Specifically mentioned were loans to develop natural resources, industry, and agricultural processing facilities in least developed member states, loans to finance exports of Latin American raw materials and manufactured goods, particularly outside the region, and loans to provide working capital or equity investment in public or private firms in Latin America. The money was to be channeled through the Venezuelan Investment Fund (*Fondo de Inversiones Venezolano—FIV*) and committed to the IDB, which would approve projects and disburse funds as appropriate. At the end of 25 years, unused funds would revert to Venezuela.

In the next 18 months similar commitments (also through the FIV) were made to the World Bank for $500 million, to the Andean Development Corporation for $60 million, to the Caribbean Development Bank (CDB) for $25 million, and to the Central American Bank for Economic Integration (CABEI) for $40 million. In the case of CABEI, Venezuela agreed to purchase CABEI bonds over a period of four years, half denominated in dollars and half in Venezuelan bolivares. In addition, the Venezuelan central bank contributed $780 million in 1974 and 1975 to oil facilities administered by the International Monetary Fund (IMF), of which $440 million went to non-OPEC LDCs.

All these funds are made available by Venezuela but are to be administered by the international institutions. Except for the IMF oil facilities, which are used to finance balance-of-payment problems, the money is used to make loans and investments in projects which meet bank standards. The going rate for such loans is approximately 8 percent annual interest over 25 years, which is slightly lower than currently available commercial terms. Because the FIV is required by law to earn a return on its foreign investments no less than that earned by the international financial banks, the above arrangements assure sensible investments in projects which meet the international banks' standards of soundness. ILLEGIB

A second major type of financial activity emerged from a meeting of the heads of state of the Central American republics, Panama, and Venezuela, which was initiated by Perez and held in Caracas in December 1974. Perez presented a plan, which was adopted by the conferees and announced in the town of Puerto Ordaz, to ease the foreign exchange and balance-of-payments problems suffered by oil-importing countries as a result of higher oil prices. The Puerto Ordaz plan was a novel and ingenious response to the demands of such countries; it created a pricing scheme that would benefit Venezuela's traditional regional markets without seriously threatening OPEC solidarity on prices. The plan was essentially worked out ahead of time and, despite requests for even more favorable concessions, Perez remained firm on the terms.

The agreement establishes a "reference price" of approximately $6 per barrel (the December 1973 price of Venezuelan oil) as the price that is paid directly to Venezuela in hard currency; the difference between the reference price and the current world price (approximately $13 per barrel in 1974) is deposited in local currency in the importer's central bank. The price differential is decreased by equal amounts over a six-year period, so that by 1981 the importers will have to pay the full price for oil. These funds are used for mutually approved development projects, which must meet standards set by the international banks. In the language of the agreement, the loans are to be used to finance investment programs and projects "contributing to the development of the natural

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President Perez (r) at the time of the signing of the Puerto Ordaz Agreement in December 1974 with Central American leaders (l-r) Torrijos (Panama), Somoza (Nicaragua), Lopez (rear) (Honduras), Laugerud (Guatemala), Molina (El Salvador), and Oduber (Costa Rica).

resources of the concerned country and the promotion of its exports" and for "effecting regional economic integration and the development of trade." In return, Venezuela receives certificates of deposit from the central banks which bear 8 percent interest annually over 25 years, with a six-year grace period for repayment. Funds which are not used for projects require repayment after only six years. 25X1

The Puerto Ordaz arrangement serves many purposes simultaneously by: 25X1

- Easing the current foreign exchange burden on the recipient countries, which can use local currency for part of the oil purchase price, and reducing the short-term balance-of-payments constraint that might otherwise dictate trade controls. 25X1

- Reducing the need for deflationary programs to counter the effect of higher prices in the recipient countries (such as slowing down industry to curb oil consumption). 25X1

- Contributing to Central American integration efforts. 25X1

- Blunting criticism of the oil-exporting countries—especially Venezuela—by the Third World countries in general and Central America in particular.

- Maintaining Venezuela's traditional oil ILLEGIB markets in the region, tying them more closely, and through its development aspect, strengthening those markets for other types of trade in the future. 25X1

- Reducing the tremendous domestic inflationary impact of Venezuela's vast income

and balance-of-payments bulge, spreading ILLEGIB part of it over 25 to 30 years. [redacted]

- Maintaining at least nominally a single ILLEGIB price for OPEC oil. [redacted]

The Puerto Ordaz ceiling commitments, to be used between 1975 and 1980, are:

	Million US $
Guatemala	105
Honduras	79
Nicaragua	57
El Salvador	80
Costa Rica	60
Panama	81

Costa Rica's experience illustrates how the plan actually works. During the first year after Puerto Ordaz, $16 million of the limit was used as counterpart funds to World Bank, IDB, and Agency for International Development (AID) loans for agricultural development and construction projects: a road from Siquirres to Limon, improvements to the international airport, and a new port at Caldera. In November 1976 a second set of loans for $12 million was approved by the FIV for continued construction on the road, the port, and the Arenal Dam Hydroelectric project. Construction of a refinery was discouraged as unsuitable for Costa Rica.

The other Central American republics have acted similarly, using a portion of the credit limit for projects that appear to be approved on their economic and technical merits rather than on political considerations; there is no evidence that Venezuela has used the potential economic ILLEGIB leverage of this program for political ends. [redacted]

Yet another form of economic assistance undertaken by Venezuela is special loans made either bilaterally or to regional groups, and tied directly to various development projects. Among these special projects are:

- An interest-free loan of $15.7 million over 20 years to Guyana, used for budget stabilization and to continue ongoing projects.

- A deferred-oil-payment plan for up to $42 million at 4 percent annual interest to Barbados, similar to the Puerto Ordaz Plan.

- Another such arrangement with the Dominican Republic, signed in December 1976 at the end of Perez' world tour, which provides up to $60 million to aid in oil purchases but appears to be administered differently from the Puerto Ordaz arrangement. [redacted] 25X1 In addition, Venezuela agreed to a preferential purchasing arrangement for Dominican sugar.

- A set of contracts between Jamaica and the FIV for loans up to $50 million to be used for domestic development projects.

- An agreement in June 1975 to provide a loan to Antigua for the purchase of the privately owned West Indies Oil Refinery. In meetings with Premier George Walter, Perez also agreed to provide a reliable source of crude oil and to assist in financing an expansion of Antigua's refining capacity.

- Contracts with Bolivia, one through the Andean Development Corporation for $1 million for feasibility studies, and another, apparently a bilateral arrangement, for $2 million (at 1 percent annual interest over 40 years) for agricultural projects. These were signed in June 1976, two years after President Banzer had rather optimistically spoken of "the valuable cooperation of our sister republic Venezuela" and rumors mentioned sums of $50 million in aid.

- A cooperative arrangement with Mexico, Nicaragua, Costa Rica, Jamaica, and Cuba to

President Echeverria since July 1974 and later by Perez. SELA is defined as "a regional organization for consultation, coordination, cooperation and economic and social promotion of a permanent nature." It is to avoid strictly political activities, which are the purview of the OAS, and to concentrate on Latin American unity in economic dealings. The Permanent Secretariat is located in Caracas, and Venezuela agreed to fund the interim budget.

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Presidents Echeverria and Perez

Venezuela also assumed a central role in the formation of the Caribbean Tourism Association, which held its first meeting in Caracas in 1974. Perez at that time pledged his support and recommended that Spanish join English as the official language of the Caribbean.

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As mentioned, Perez actively sought the end of OAS sanctions against Cuba. This was not advanced as a disavowal of traditional Venezuelan attitudes toward nondemocratic regimes in the hemisphere but as a recognition that the OAS sanctions were anachronistic and ineffective. Along with the presidents of Colombia and Costa Rica, Perez lobbied for a vote to lift the strictures at the November 1974 meeting in Quito. Many Latin American countries had already resumed bilateral relations with Cuba, and although the Quito effort failed, it was such a narrow defeat that most other Latin American countries reestablished relations, especially after another OAS vote the following July left the matter in each country's hands.

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Talks then began to reestablish commercial relations between Venezuela and Cuba, but met with little success. Perez finally resurrected an idea originally proposed by President Caldera of a multilateral deal involving Cuba, the Soviet Union, and Venezuela's oil customers in Western Europe. To reduce transport costs for all parties, Venezuela would ship its oil to Cuba, normally supplied by the Soviet Union; in return the USSR would supply Venezuela's West European customers. This plan was bruited about for months, and was a partial rationale for Perez' visit to Moscow in November 1976. Although Perez announced that the deal was concluded then, problems remain, and it has not yet been implemented. An unrelated agreement, however, was signed in April 1977 whereby Soviet tankers, on their return trip from Cuba, will carry Venezuelan oil to Italy. In his pursuit of regional visibility and influence, President Perez has also put himself forward as a mediator in regional disputes, offering to help Bolivia, Chile, and Peru resolve their territorial disagreements over a Bolivian corridor to the sea and to host a meeting between representatives of Guatemala and Belize (without the United Kingdom) to help solve their conflict.

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In addition, Venezuela has attempted to assume a role of political leadership in the North-South dialogue between the developing countries and the developed countries. Manuel Perez Guerrero, the former minister of energy and mines and present minister for international economic affairs, is co-chairman of the Conference for International Economic Cooperation (CIEC), and President Perez himself has been quite visible, advocating Third World goals in various other forums. During his November

finance a Caribbean shipping company (*Compania Naviera Multinacional del Caribe, S.A.–Namucar*). Each country contributed $500,000 initially, and pledged up to $3,750,000 by 1979. Namucar was set up to transport bulk cargo and merchandise between regional ports, to increase intraregional trade, and to decrease dependence on foreign-owned maritime transport. It is still a very small operation, but contrary to all expectations, it began to operate in the black after only four voyages and a few months of operation. [redacted]

ILLEGIB

• A loan of $5 million at 12 percent annual interest plus a 2 percent service charge to Trinidad and Tobago, Barbados, and Grenada to purchase the Leeward Islands Air Transport System (LIAT), the Eastern Caribbean regional short-haul interisland airline, which faced bankruptcy. At the time, October 1974, there seemed a fair chance that the investment would never be repaid, and it was regarded as a purely political and influence-building gesture. In October 1975, however, the Venezuelan loan was repaid by a $5.5 million longer term loan from the Caribbean Development Bank. [redacted]

ILLEGIB

• A coffee retention plan to support the world price of Central American coffee, in cooperation with Mexico and Colombia. Venezuela agreed to finance up to $80 million for up to 50 percent of the value of the crop retained. [redacted] the financing was to be strictly short term–six months to a year–at the end of which time the Central Americans were expected to have established a corporation of their own for the financing. The plan was never realized, however, because a subsequent rise in the world price for coffee eliminated the need for stockpiling. [redacted]

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Interest in the Andean Pact also increased for a while, but produced far less visible progress. The Pact was set up in a period of high hopes in 1969 among Chile, Bolivia, Peru, Ecuador, and Colombia to stimulate a regional market and to serve as a counterweight to Brazil, but accomplished little. Venezuela joined in 1973 under Caldera, but labor and business opinion have remained cool toward the arrangement because it places reciprocal demands on the member countries, and businessmen in Venezuela expect that with the proposed elimination of intraregional tariffs the other members would be a drag on Venezuelan development.[4] Recently, the Pact has suffered from Chile's withdrawal. Nevertheless, as mentioned, the FIV contributed $60 million to the Pact.

By July 1975, the FIV through these and other projects had reportedly paid out $245 million and had received repayments, "strictly on schedule," of $13 million. These investments will provide a continuing return for 25 to 30 years, and in this sense could form part of a coherent development policy to serve domestic political and economic ends, but in reality the funds involved are insignificant in the face of Venezuela's future needs.

Besides orchestrating these predominantly economic activities, Perez and other Venezuelan officials have assumed an active public role in promoting regional integration and supporting Third World demands for a new international economic order. [redacted]

ILLEGIB

Perhaps the most far-reaching concrete expression of a new push for economic regionalism in the 1970s was the creation of SELA in October 1975. The concept of such an organization to include all Latin American countries, but, unlike the OAS, to exclude the United States, had been actively promoted by Mexico's

[4]Production rights in certain basic industrial sectors are to be allocated among the member countries in a way which equalizes the benefits of integration. These Sectoral Programs for Industrial Development (SPID) attempt to create one viable subregional market out of numerous small ones through planning and complementary development, but established interests invariably oppose any loss of markets. For example, an overall development plan for the automotive industry within the Pact was proposed which would have lowered Venezuela's share of the market and reduced her profits; renegotiation of the terms is still in progress. [redacted]

ILLEGIB

minister of mines and hydrocarbons. Although retired since 1963, he continues to make public statements and to write editorials on foreign policies, especially oil-related policies, which invariably receive wide press coverage and comment.[6] [redacted] 25X1

Although President Perez inherited the policy of regional involvement from his predecessors, he has become identified with it to an exceptional degree. Most of the populace takes pride in Venezuela's new international stature, and Perez is a popular figure. There are those, however, who complain that any funds diverted to external programs could be better used at home and that domestic development programs should take priority over foreign policy gestures. [redacted] 25X1

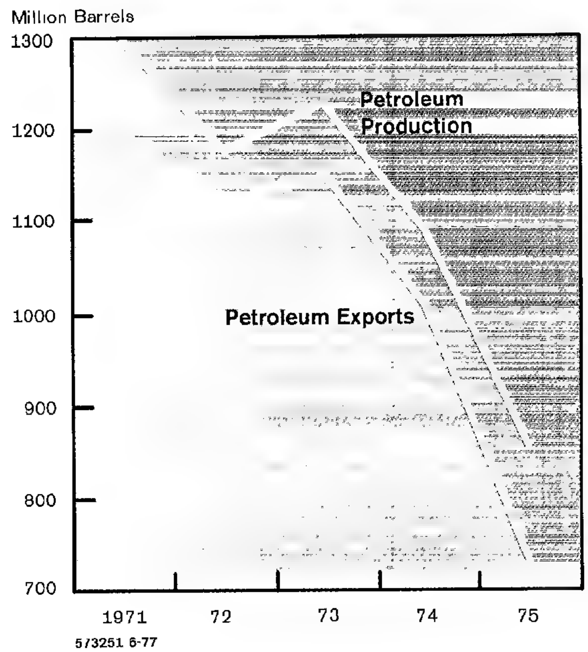
Funding and Possible Conflicts

The OPEC price boom came at a fortunate, yet ironic, time for Venezuela, whose oil production peaked in the 1970s. For decades Venezuela was the world's largest exporter of oil, but today it is third, after Saudi Arabia and Iran, and slipping. Other OPEC members such as Iraq and Kuwait will probably move ahead of Venezuela within a few years, but more significantly, Venezuelan production is expected to decrease over the next decade, perhaps even precipitiously in the next few years. [redacted] 25X1

The oil fields which have been exploited for over half a century are beginning to run dry, and Venezuela has sharply reduced oil production in recent years to conserve its dwindling reserves. From an average level of 3.4 million barrels per day (b/d) from 1971 through 1973, 1975 production averaged 3.0 million b/d and 1976 production averaged only 2.3 million b/d. [redacted] 25X1

There is almost certainly more oil to be found and developed in Venezuela, but very little exploration was carried on in the 1960s

Volume of Petroleum Production and Exports [redacted] 25X1



and early 1970s because the petroleum industry had no incentive; it was scheduled for nationalization in the 1980s and no concessions were granted after 1959. Venezuelan officials today point to promising geological structures in the Gulf of Venezuela and on the continental shelf, but admit that the process of exploration and development will take years even if luck is with them and the oil is there. [redacted] 25X1

One known resource is the largely undeveloped Orinoco Tar Belt (or as it is officially euphemized, the Orinoco Petroliferous Belt). The petroleum reserves there are estimated at 700 billion barrels, and if only 10 percent of this were recoverable, it would equal five times the present reserves. The area is isolated from all transportation, however, and the quality of the oil is so poor that the technology does not now exist to extract usable oil economically unless another significant price rise occurs. [redacted] 25X1

The latest analyses of the world energy situation project a relatively stable world price for oil through 1980, with the prospect of sharp

[6] After he retired from the Ministry of Mines and Hydrocarbons, Perez Alfonzo began to consider Venezuela's oil a hindrance to its development, stating that Venezuelans would remain lazy until the oil ran out. Despite all the efforts and development plans, there may be some truth to this. It is the analogue, from the export side, of the industrialized countries' dependence on oil and their failure to develop alternative sources of energy. [redacted] 25X1

1976 trip, he addressed the UN General Assembly in New York and the international congress of Social Democrats in Geneva. At the UN he said: [redacted] 25X1

Venezuela is actively and firmly committed to the Third World at all forums where the new international economic order is discussed and is already being constructed. From the recent special UN assemblies to UNCTAD forums and now through the honor of sharing the chairmanship at the North-South talks, we have joined the rest of Latin America in the Manila agreements which set forth a responsible, organic concept of the Third World–the Group of 77–and of what the new international economic order should be. [redacted] 25X1

All this recent activity has been received by Venezuela's neighbors with few expressions of concern. Most see no conflict between Venezuelan influence in the area and their own economic and political interests. Only a few of Venezuela's neighbors have responded with suspicion, like Trinidad's Eric Williams, who charged Venezuela with "recolonization of the Caribbean." Most, like Kjell Laugerud of Guatemala and Anastasio Somoza of Nicaragua, have been quite receptive and simply accept the economic realities of the situation with mild regret; a leading Dominican economist stated that "1974 probably represents the close of a period that began in 1961, of great dependence of our country on the United States, and unfortunately the beginning of another period of economic dependence on Venezuela and other nearby oil producers." [redacted] 25X1

Personalities and Personnel

Much of the drive for all of these activities has come directly from President Perez, who is following in a Venezuelan tradition of strong personalistic leadership. Although the AD party benefits from his foreign policy successes and the people in general are proud of Venezuela's more important role on the world stage, very few other groups or individuals play an effective role in the formulation of foreign policy. In the Venezuelan political system, the various ministries and special institutes directly involved in the execution of foreign policy have had very little say in its formulation. [redacted] 25X1

An emergency measure passed in 1974 delegated extraordinary powers for one year to the president to carry out special economic matters, and during that time his administration often took the form of executive orders, or decrees. This official license and the continuing deference paid to traditionally strong presidential power give him the freedom to announce programs of aid or development apparently without prior consultation. The FIV was created by an executive decree, and over the next year or so Perez seemed to announce a new program in every speech, especially when addressing foreign audiences or visitors. Some of these seem to have caught his own government by surprise, which may explain the frequent confusion caused by his statements and the delay preceding official implementation. For example, his announcement to the UN General Assembly that Venezuela was cutting its trade with South Africa was completely unexpected and uncoordinated. [redacted] 25X1

Venezuela has many well-trained and experienced individuals in the petroleum industry, but most of them and the several thousand students who go abroad every year to study petroleum technology are technical experts only. Venezuela's pool of trained and experienced diplomatic personnel [redacted] 25X6 qualified individuals exist [redacted] The Foreign Ministry especially, under Escovar Salom, is generally undistinguished and disorganized. Aside from President Perez, the most well-known public voice is Juan Pablo Perez Alfonzo, the architect of OPEC and former

[redacted] 25X6

increases after that. Thus although Venezuela will benefit from the tightening energy situation in the 1980s, in the next few years it is likely that Venezuela's oil revenues will continue to level off, or even possibly to fall. This means that it will become increasingly difficult for Venezuela simultaneously to finance its extremely ambitious domestic development programs—especially the imports of machinery and technology necessary to support them—and to make large new foreign economic assistance commitments. [redacted]

25X6

The development program, as contained in the 1976-80 five-year plan (V Plan of the Nation) calls for major investments to develop the nation's oil resources (especially on the continental shelf and in the Orinoco Basin) as well as to develop infrastructure and to diversify the economy away from its heavy dependence upon oil. Specific priorities include a metro system, the mining and steel industries, electrical development, highways, ports, airports, waterworks, sewage plants, and agriculture. [redacted]

25X6

The plan is designed to transform not only the economy but also the social structure by 1980 by spreading economic gains more equitably among the populace. It entails heavy state intervention in "strategic" areas, leaving agriculture, small and medium industry, transportation, construction, finance, and trade to private investors. The plan calls for an investment of nearly $51 billion ($27 billion from the government and $24 billion from private enterprise). Success is to be measured not only by growth in national income but also by improvements in social indicators, including unemployment and levels of nutrition, education, housing, and health care. [redacted]

25X6

It is unlikely that many of the plan's goals will be met. Despite well-publicized efforts to diversify the economy and to develop heavy industry, modern infrastructure, and social and agricultural programs, the economy is at least as dependent on oil as it was before these efforts. For one thing, Venezuela's record with nationalized industries has been uneven. The government had hoped that domestic development would by now have created other export industries, such as the steel industry and the petrochemical industry, which are largely state owned. The former is still years away from being a significant source of export revenues, however, and the latter has been badly managed. In addition, the plan may cost far more than projected. The bill for imports and other

Projected Imports, Current Account Balance, and Foreign Reserves [redacted]

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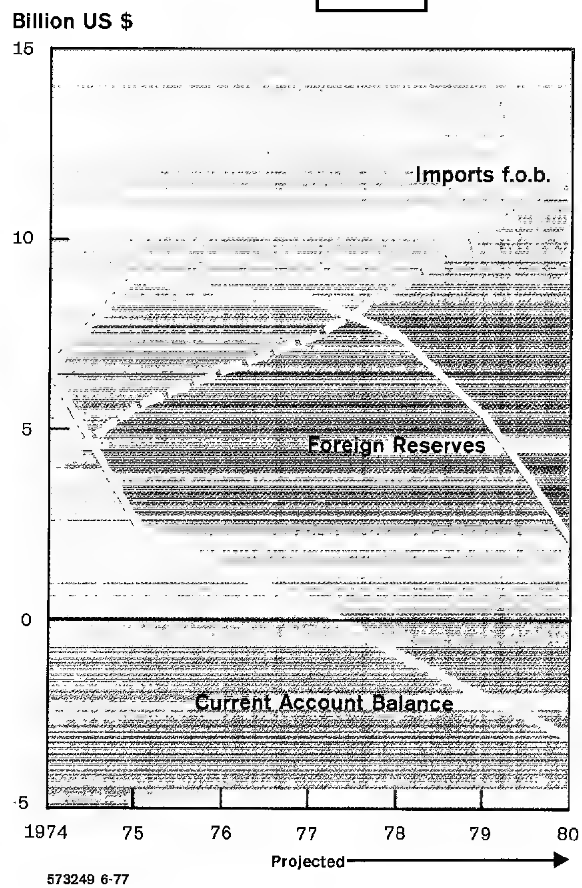

current expenses has risen steeply since 1973, reaching approximately $7 billion in 1976, and, although Venezuela held $8 billion worth of international reserves at the end of 1976 (the highest in Latin America), its current account surplus has begun to decline rapidly. As the

	1974	1975	1976 Estimate
			Billion US $
Export earnings, (f.o.b.)	11.1	8.7	8.8
Oil export earnings	10.1	8.2	8.4
Imports, (f.o.b.)	3.9	5.5	6.5
Current account balance	6.4	2.4	1.2

surplus disappears, the need for foreign borrowing to finance development programs will increase. In anticipation of this, a "public credit" law was passed in August 1976 to permit borrowing up to $7.2 billion (2.8 from the FIV and 4.4 from abroad) to help finance the V Plan.

In September 1976 a $1 billion loan was negotiated from a consortium of international banks, ostensibly to consolidate short-term obligations but also to establish credit and take the first step in the development of a prudent, long-range planned debt program. Venezuela currently has no trouble borrowing on the world market, due to its oil export potential and its large foreign reserves, but, in anticipation of heavy future borrowing, it is moving to create an excellent debt record to sustain its credit rating as its oil reserves are depleted. In February 1977, a $100 million bond issue was offered and sold on the Eurobond market to help in the V Plan, and in March another major loan to finance the development plan was arranged through a group of 111 banks. The latter, for $1.2 billion, is reportedly the biggest single loan even made to a developing country.

Implications

Venezuela's dynamic foreign policy has been closely linked to extremely high oil revenues, but from now through 1980 the popular and political pressure for conservation and domestic development will probably prevent large new regional economic assistance programs. This will be a period of some retrenchment, for without excess oil revenue to dispose of, there are few ways in which Venezuela could conduct an active and effective foreign policy: it has relatively few close cultural and historical ties to the other countries in the region; it has failed to establish a sound industrial base for new export-led growth; its military is essentially a domestic defense force [redacted] 25X6

The regional agreements of the past four years have provided experience and international connections for a few individuals, especially in the Foreign Trade Institute, the Ministry of Energy and Mines, and the Ministry of International Economic Affairs, but their personal and political influence is limited. The only area in which Venezuela has developed a base of human and institutional expertise is in the petroleum industry, and this is largely irrelevant to the conduct of foreign affairs except for certain bilateral agreements under which Venezuela has arranged to help other countries develop refinery capacity. The military limits its interest in foreign policy to Venezuela's unresolved border disputes with Colombia and Guyana, which present a remote possibility for conflict, but it is unlikely that military pressure would be brought to bear on any of Venezuela's other neighbors. [redacted] 25X1

Although the populace enjoys the country's increased stature on the world stage, pressure to spend less money abroad and more at home is increasing. The national elections scheduled for December 1978 will surely sharpen the issue, and extensive new foreign assistance programs will probably become too controversial for either the AD candidate (Luis Pinerua Ordaz) or the COPEI candidate to support. Venezuelan activities in the next few years will be influenced by many factors, however, and an unexpected oil price increase or the election of a new president who also relishes a dynamic foreign policy role—Perez may not succeed himself—could sustain Venezuela's activities. [redacted] ILLEGIB

After 1980, it is possible that world demand will cause the price of oil to rise significantly, as it did in 1973-74. Although that period is beyond the scope of this paper, Venezuelan expectations of their prospects in the 1980s will clearly influence decisions in the next few years. If the Venezuelan leaders and people

foresee an upturn in the fortunes of oil (as has happened so often in the past), they will view the present tightening situation as temporary and will expect to continue their influential role in the future. [redacted] 25X1

For the present, regional and international activities will probably be initiated only if they do not divert funds from domestic priorities. Nevertheless, Venezuelans will continue to support an active foreign policy, for they take pride in their position of Latin American and Third World leadership. Much has been accomplished in the past three years to raise expectations and to increase the sense of national pride and well-being. The iron ore and petroleum industries were nationalized, the Venezuelan president made well-publicized state visits worldwide, and Venezuela became a recognized spokesman for many Third World aspirations. Just as important, Venezuelans take great pride in their democratic tradition. Venezuela and Colombia are currently the only two democratically elected regimes in South America, and since the days of Betancourt, Venezuela has worked to promote democracy in the region. [redacted] 25X1

All of this suggests that Perez (through the end of his term in 1979) and his successor (into the early 1980s) will seek activities which maintain Venezuela's high visibility and rhetorical position of leadership, such as Perez' recent trips, but until the price of oil soars again will try to avoid large new assistance programs. [redacted] 25X1

The author of this paper is [redacted] 25X1 *Methods and Forecasting Division, Office of Regional and Political Analysis. Comments and queries are welcome* [redacted] 25X1

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